

## PIPELINE/PAYMENT PROCESSING REVIEW EXECUTIVE SUMMARY

### ***AUDIT HIGHLIGHTS***

Franchise Tax Board's (FTB) Pipeline processes all incoming mail such as payments, returns, and correspondence. The Receiving and Data Storage Section (RDSS) and the Information Capture Banking Section (ICBS) within the Processing Services Bureau (PSB) mission is to become more customer centered and to better deliver efficient business results by:

- Assuring the integrity of the tax and non-tax programs.
- Processing returns, claims, payments, refunds, and other tax and non-tax documents and information accurately and efficiently.
- Validating documents and information to make appropriate revenue adjustments.

Our review of internal controls pertaining to Pipeline/Payment processes revealed the following areas of concern. For more detailed information, please refer to the audit report.

- Payments are not being processed timely
- Payments are being misapplied
- Some missing payments are not tracked or monitored
- Resources are not used efficiently
- Payments are vulnerable to unauthorized access, destruction, and theft
- Payment processing procedures are not updated or documented

We acknowledge PSB processes millions of returns and payments annually; however, process improvements can be made that will allow FTB to serve our customers to our fullest potential.

### **AUDITEE RESPONSE**

The Processing Services Bureau within the Filing Division concurred with our recommendations and provided a response for their resolutions. Please refer to Auditee Response of this report.



chair **John Chiang**  
member **Judy Chu, Ph.D.**  
member **Michael C. Genest**

State of California  
**Franchise Tax Board**

February 3, 2009

To: Phillip Yu

From: Marlene White

**Pipeline/Payment Processing Review - Responses**

## Memorandum

Attached are the program responses to the ten Findings identified in the Pipeline/Payment Processing Review dated January 2009. Please let me know if you have any additional questions or would like to meet and discuss.

**Finding 1 (F-1): Some Personal Income Tax and Business Entities (BE) unidentified payments are not being processed timely, resulting in stale dated checks and loss of revenue to FTB.**

Response:

1. The PIT Video Unit has processed all outstanding checks and has implemented procedures to minimize the potential for stale dated checks. Staff in the PIT Video Unit uses a checklist process to help identify all payments deemed "unidentified". These "unidentified" payments are worked regularly by skilled staff to determine what steps are needed to apply the payment accurately. Procedures are in place to apply or return to taxpayers all payments prior to a "stale" date.
2. PIT Video staff has been given access to new systems, such as the Accounts Receivable System (ARCS), to assist in locating the correct account to apply the payments. Receiving's goal is to apply 100% of the payments accurately.
3. A spreadsheet, located on the PIT Video shared drive, has been developed to identify all suspense payments.
4. The BE Video Unit has developed procedures to work with BES staff to help with payment identification issues. BES staff has additional location tools and are highly skilled with BETS and other FTB systems.
5. RDSS will continue to utilize seasonal clerks in both the PIT and BE Video Units as it has proven to be the most efficient and cost effective way to ensure prompt and accurate payment application. As the chart under F1 shows, monthly payment volumes in both the PIT and BE Video Units fluctuate dramatically. Each filing season dictates that the PIT Video will double in size to allow for timely tax return and payment processing. For the months of January, April and May RDSS would need to

either redirect 15-20 internal permanent staff or “borrow” staff from other sections, bureaus or divisions. This redirection or borrowing would create backlogs in the areas where staff has temporarily vacated. The redirected or borrowed staff would still need the same training and review as our seasonal clerks. Additionally, there has been no conclusive analysis that would indicate that permanent staff applies payments more accurately than seasonal clerks

6. A review of other agencies payment application staffing shows a use of similar classifications. Employment Development Department uses Office Assistant, Office Technician and seasonal clerks for their payment processing. The Department of Child Support Services contracts out payment application to the Bank of America. The Internal Revenue Service also contracts out estimate payment application work to the Bank of America. The Bank of America uses temporary staff for both agencies.

**Finding 2 (F-2): Personal Income Tax (PIT) and Business Entity (BE) payments are being misapplied to the incorrect taxpayer, tax year, or type of payment by the PIT and BE Video Units within the Receiving and Data Storage Section (RDSS).**

Response:

1. Both the PIT and BE Video Units will enhance the quality review process before new video staff are considered fully trained. The supervisor and leads in the PIT Video Unit will have staff attend additional TI training. This training will focus on the recognition and application of Notice of Proposed Assessment payments.
2. The Executive Liaison Section is working with the Taxpayer Information (TI) staff to discuss the feasibility of a change request to TI. This request would have TI check for non-final Notice of Proposed Assessments (NPA) prior to a refund being issued.
3. On payments where the taxpayer has not provided accurate or complete information for prompt payment application, the PIT Video Unit will add additional search steps.
4. BE Video staff has requested access to BE ARCS. Once access has been authorized the ARM Training Team will conduct BE ARCS training. This additional tool will provide staff an additional research capability to help apply payments accurately.

**Finding 3 (F-3): The Bad Doc Desk missing payment workloads are not tracked, monitored, or resolved timely causing a potential loss of revenue to FTB.**

Response:

1. ICBS will document procedures for the Bad Doc Desk, estimated completion 2/02/09.
2. ICBS will create database to track, monitor and prioritize payment workload, estimated completion 5/31/09.

3. ICBS will document these timeframe in the written procedures and log contact information into database, estimated completion 2/20/09.

**Finding 4 (F-4): Form FTB 6352, Business Entity Memorandum of Remittance can not be scanned and processed by the Image Processing and Cashiering System (IPACS): therefore, causing delays in payment processing.**

Response:

1. RDSS will work to identify users of Form FTB 6352. Once all users are identified RDSS will recommend the online entry, Conversation \*\*\*\* in BETS be utilized, and users print a copy of the transaction to accompany the payment.
2. Prior to elimination of FTB 6352 all staff using FTB 6352 will need access to Conversation \*\*\*\*. BETS accesses are controlled at the individual unit level so any recommendation by RDSS will impact other business users processes, quality control and production measurements.

**Finding 5 (F-5): An employee from the Business Entity (BE) Video Unit within the Receiving and Data Storage Section (RDSS) is performing collection activities that should be done by a different business area.**

Response:

1. The goal of the BE Video Unit is to provide prompt and accurate application of payments. The current process does provide for both the prompt and accurate application of payments since the payments are being applied at the direction of a collector. Since alternatives to the current process have not been thoroughly analyzed it would be premature for RDSS to commit to implement a change to this process.
2. RDSS analyses indicates that if BE Express mail is processed the same as PIT Express mail, the Express Desk would route 30-50 live checks daily to collectors throughout the FTB campus. This routing of live checks would both expand the risk of lost payments and delay any payment application. This solution creates signifigation problems and should not be considered.
3. RDSS would like to work with the Accounts Receivable Management Division business users to discuss the potential for changes. RDSS will seek a solution with the ARM Division that meets the goal of prompt and accurate payment application and their customer service expectations. The estimated completion date is 06/30/09.

NOTE: ((\*\*)) indicates confidential and/or proprietary information redacted (Government Code section 6254.9).

**Finding 6 (F-6): The Miscellaneous Unit within the Receiving and Data Storage and Data Section (RDSS) processes payment workloads that should be done by a different business area.**

Response:

1. This recommendation of moving all payment application process to the PIT Video Unit was implemented in December 2008 and the procedures have been updated.

**Finding 7 (F-7): The lack of accounting for and monitoring of the Receiving and Data Storage (RDSS) badge clips compromises the security of the Receiving area.**

Response:

1. RDSS will not create a log or monitor blue badge clips since the blue badge clips can be purchased at any office supply retail store. RDSS will have all managers, supervisors and leads (70 staff) monitor their individual business area for unauthorized or loitering staff.
2. Annually RDSS meets with Privacy and Security Bureau (PSB) to discuss the placement and monitoring of the 31 security cameras located in ICBS and RDSS. These cameras are placed in strategic areas to observe areas of vulnerability. RDSS will discuss with PSB monitoring access for Administrator I and above classifications.
3. RDSS will work with PSB to explore a better way of monitoring and controlling access to our section. This could include some kind of additional badge attached to the current FTB badge. Any additional badge would be monitored and controlled by PSB.
4. Currently each entry point has a guard who sits by the entrance and looks to make sure people have the correct color badge clips. Badge clip distribution is limited on an as needed basis.
5. The activation and use of the badge readers in the Receiving area can be problematic due to the vast number of staff hired for "peak" season. During the months of March, April and May 400-500 staff regularly enters and exit the Receiving area. Requiring staff to constantly badge into the Receiving area creates the potential for a huge bottleneck at the gates. This will create a safety hazard since walkway is the central path for electric carts.

**Finding 8 (F-8): Some of the procedures within the Processing Services Bureau (PSB) are outdated or are not documented.**

Response:

1. All eleven manuals for Receiving have been updated to reflect recent changes to procedures. All manuals are in the either in the final review process or being formatted for plain language by the bureau publication manager, estimated completion 6/30/09
2. All manuals for Data Storage have been revised and are currently being reviewed. Once changes are completed the on-line manuals will be updated, estimated completion 6/30/09.
3. ICBS will document procedures for the Bad Doc Desk, and document the process for daily reconciliation of bank deposits. Estimated completion 2/02/09.

**Finding 9 (F-9): Payments or returns, which require priority processing, are not being processed timely or efficiently, therefore; causing processing delays.**

Response:

1. Receiving is analyzing department use of the priority processing service. RDSS goal is to ensure that all accounts that merit priority process receive that service.
2. Once the department priority process use has been analyzed RDSS will implement changes, which may include log revisions and priority process user education.

**Finding 10(F-10): e-file taxpayers who send FTB their payment with a paper copy of their e-filed return may receive a Statement of Tax Due (STD) notice in error.**

Response:

FMBB will address the recommendations as follows:

1. We will continue to distribute the new e-Pay Toolkit. The Toolkit provides practitioners with a poster, flyers, and an instruction sheet to assist clients with Web Pay. These products will be distributed at outreach events and e-services workshops. These products are also available online at [ftb.ca.gov](http://ftb.ca.gov), search epay toolkit.

2. We will educate practitioners at e-services workshops and liaison meetings of the delays caused when a paper copy of the e-filed return is submitted with the payment. We will also distribute an electronic message using our mass-mail distribution list.
3. We will make revisions to FTB 3582 to provide additional clarification.



chair **John Chiang**  
member **Judy Chu, Ph.D.**  
member **Michael C. Genest**

State of California  
**Franchise Tax Board**

02.11.09

To: Marlene White, Director  
Processing Services Bureau

From: Philip Yu

**Pipeline/Payment Processing Review**

## Memorandum

*Pipeline* defined by the American Heritage Dictionary states, "A channel by which information of a generally secret or confidential nature is transmitted." The Franchise Tax Board's (FTB) *Pipeline* consists of the processing of all incoming mail such as: payments, returns, and other correspondence. The entire *Pipeline* process occurs within the Processing Services Bureau (PSB).

PSB is comprised of four major sections:

**Receiving and Data Storage Section (RDSS)** is responsible for the first and final stages of the *Pipeline* process. The first stage is comprised of 9 units that receive and prepare the mail for preprocessing for all programs including Personal Income Tax (PIT), Bank and Corporation (B&C), Homeowner and Renters Assistance (HRA), and Non-Tax workloads. The final stage acts as the departmental "custodian of records"; providing records management services to the tax and non-tax programs at FTB.

**Information Capture and Banking Section (ICBS)** is accountable for capturing and cashiering tax and non-tax workloads which include both the Manual Processing and Cashiering System (MPACS) and Image Processing and Cashiering System (IPACS).

**Business Entities Section (BES)** primary function is reviewing and perfecting (corrects) Business Entity (BE) returns and payments. This includes Corporations, Limited Liability Companies (LLC), and Partnerships. BES also reviews, corrects, and approves tax assessments and refunds based on income tax returns and information from the Audit Division, Accounts Receivable Management (ARM) Division, and the Legal Division. Other responsibilities include the administration of the department's Exempt Organization Program and post-audit support, analysis, and processing.

**Information Validation Section (IVS)** responsibilities include reviewing, correcting, and approving tax assessments and refunds. The section issues Return Information Notices (RIN) for all PIT returns, which do not meet the mathematical or logical criteria of the PIT system. Returns that cannot be processed by the automated system are referred for resolution by section staff.



## PAYMENTS & RETURNS

From January 1, 2008 through December 30, 2008, PSB processed approximately:

	Volume	Amount
Payments	12,611,614	\$40,581,346,917.00

  

	Volume
Returns	16,944,754

On April 28, 2008, the RDSS, ICBS, and Imaging Services Sections set a record-breaking deposit of \$2,882,920,568 (454,487 checks deposited) making the biggest deposit for FTB ever!

## PURPOSE / SCOPE

The Pipeline/Payment Processing Review was conducted as part of Internal Audit's Enterprise Risk-Based Audit Plan. The original scope of the audit was to include both payments and returns. However, due to issues with missing and mis-applied payments, the scope was narrowed to focus strictly on receiving payments, posting payments to the appropriate systems and taxpayers' accounts, and depositing payments to the correct financial institutions from January 1, 2008 to December 31, 2008.

## OBJECTIVE

- Review the significant controls within the Pipeline/Payment process
- Identify areas for improvement
- Propose recommendations to strengthen the controls within the process to safeguard FTB's assets and mitigate risks

## METHODOLOGY

To achieve our audit objective, the internal audit team:

- Met with the different business areas within PSB to obtain information regarding pipeline/payment processes and procedures, roles, responsibilities, and daily bank deposit reports.
- Obtained Personal Income Tax (PIT) and Business Entities (BE) payments to verify payments are processed, posted timely, and correctly.
- Obtained daily bank deposits to verify deposits are reconciled and deposited to the correct banks.

## RESULTS

The following is a summary of the auditor's findings and recommendations. For additional details relating to findings and recommendations, see Appendix A.

### FINDINGS

F-1	Some Personal Income Tax (PIT) and Business Entities (BE) unidentified payments are not being processed timely, resulting in stale dated checks and loss of revenue to FTB.
F-2	Personal Income Tax (PIT) and Business Entity (BE) payments are being mis-applied to the incorrect taxpayer, tax year, or type of payment by the PIT and BE Video Units within the Receiving and Data Storage Section (RDSS).
F-3	The Bad Doc Desk missing payment workloads are not tracked, monitored, or resolved timely causing a potential loss of revenue to FTB.
F-4	Form FTB 6352, Business Entity Memorandum Of Remittance cannot be scanned and processed by the Image Processing and Cashiering System (IPACS); therefore, causing delays in payment processing.
F-5	An employee from the Business Entity (BE) Video Unit within the Receiving and Data Storage Section (RDSS) is performing collection activities that should be completed by a Collector.
F-6	The Miscellaneous Unit within the Receiving and Data Storage Section (RDSS) processes payment workloads that should be done by a different business area.
F-7	The lack of accounting for and monitoring of the Receiving and Data Storage (RDSS) badge clips compromises the security of the Receiving area.
F-8	Some of the procedures within the Processing Services Bureau (PSB) are outdated or are not documented.
F-9	Payments or returns, which require priority processing, are not being processed timely or efficiently; therefore, causing processing delays.
F-10	E-file taxpayers who send FTB their payment with a paper copy of their e-filed return may receive a Statement of Tax Due (STD) notice in error.

## RECOMMENDATIONS

F-1	<p>RDSS should:</p> <ul style="list-style-type: none"> <li>• Establish stale dated checks procedures.</li> <li>• Process and cash the 7 money orders.</li> <li>• Conduct additional research on the remaining 22 stale dated checks and resolve the 4 checks with the taxpayer's SSN.</li> <li>• Assign additional permanent full-time staff at the analyst classification to work unidentified payments, stale dated checks, and complex workloads.</li> <li>• Provide staff the necessary research tools, system access, and training to process PIT and BE payments.</li> <li>• Work with Legal, Office of Resolution Management/Disclosure, and Fiscal Accounting to resolve outstanding stale dated check issues and to prevent reoccurrence.</li> <li>• Revise the name and language of form FTB 4735, Payment Identification Letter to reflect the true intent of the letter.</li> </ul>
F-2	<ul style="list-style-type: none"> <li>• RDSS should increase supervisor review of the completed FTB form 6350, In-Lieu Remittance Document and the in-lieu in BETS Conversation (****) PYMT Data Requests for staff within the PIT and BE Video Units especially when estimated quarterly payments are due to ensure the correct payment information is being recorded.</li> <li>• PIT &amp; BE Video Units should post the payments carefully to TI/BETS to ensure the taxpayer's payments are processed and applied accurately.</li> <li>• PIT Video Unit should access the Proposed Assessment Display in TI to check for any pending Notice of Proposed Assessments (NPA) with the same payment amount in order to avoid refunding the payment in error.</li> </ul>
F-3	<p>To ensure the missing payments are resolved timely and in an orderly fashion, ICBS should:</p> <ul style="list-style-type: none"> <li>• Establish written procedures for the Bad Doc Desk to resolve missing payments.</li> <li>• Create a database to track, monitor, and prioritize missing payment workloads.</li> <li>• Establish timeframes when to check TI/BETS, initiate telephone contact or send a letter to ensure taxpayers are contacted timely.</li> </ul>
F-4	<p>In order to process payments in a timely manner when business entities do not enclose payment instructions or documentation, we recommend the following:</p> <ul style="list-style-type: none"> <li>• Staff should utilize only the online data entry in BETS Conversation (****) PYMT Data Request, and print a copy of the transaction to accompany the payment.</li> <li>• Inform all users to discontinue the use of form FTB 6352, Business Entity Memorandum of Remittance, to avoid processing delays and additional workload for the BE Video Unit and update procedures accordingly.</li> </ul>

NOTE: ((\*\*)) indicates confidential and/or proprietary information redacted (Government Code section 6254.9).

## RECOMMENDATIONS (CON'T)

F-5	<p>To promote operational efficiency and encourage adherence to office policies and procedures, we recommend the following:</p> <ul style="list-style-type: none"><li>• Eliminate the Corp Express Mail Sort to reduce the unnecessary workload for Express Mail Unit Staff and free up resources for the BE Video Unit and update procedures accordingly.</li><li>• Express Mail addressed to the list of Collectors in the Corp Express Mail category should be treated the same as those in the named/specific individual category.</li></ul>
F-6	<p>To promote operational efficiency and encourage adherence to office policies and procedures, the Miscellaneous Unit should:</p> <ul style="list-style-type: none"><li>• Route PIT payments without a payment document/correspondence to the PIT Video Unit for proper payment application.</li><li>• Route Box Mail to the appropriate business areas.</li></ul>
F-7	<p>In order to ensure the security of taxpayer information and payments RDSS should either:</p> <ul style="list-style-type: none"><li>• Work with Worksite Security regarding the options available for activating the badge readers.</li></ul> <p>Or</p> <ul style="list-style-type: none"><li>• Monitor and track the colored badge clips.</li></ul> <p>In addition RDSS should:</p> <ul style="list-style-type: none"><li>• Establish written procedures for the distribution, tracking, and recovery of colored badge clips.</li><li>• Assign only RDSS Managers and Supervisors to distribute the colored badge clips.</li><li>• Assign staff to track and monitor the colored badge clips.</li><li>• Explore the option of restricting DGS janitorial services to business hours.</li></ul>
F-8	<p>In order to ensure all processes are completed consistently, completely, and correctly PSB should:</p> <ul style="list-style-type: none"><li>• Establish written and/or updated procedures to reflect current practices.</li><li>• Ensure all procedures are shared with, and available to staff.</li></ul>

## RECOMMENDATIONS (CON'T)

F-9	<p>In order to process payments or returns that require priority processing or special handling properly and in a timely manner:</p> <p>RDSS should:</p> <ul style="list-style-type: none"> <li>• Consolidate the <i>Priority Processing/Walk Thru Logs</i> and the <i>Priority Process/Walk Thru-Check Logs</i> into one log sheet for staff to submit their payments/returns that require priority processing or special handling.</li> <li>• Establish a policy and procedure for retention and/or destruction for the consolidated log sheet.</li> <li>• Educate and train the business areas on the completion of the consolidated log sheet.</li> <li>• Inform the business areas when the payment/return has been processed.</li> <li>• Remove and secure completed consolidated log sheets from the bins at the end of each business day.</li> </ul> <p>DSSS should:</p> <ul style="list-style-type: none"> <li>• Hand deliver unprocessed payments/returns to RDSS.</li> </ul> <p>Business Areas should:</p> <ul style="list-style-type: none"> <li>• Submit form FTB 7020, Return Transmittals with complete and clear instructions.</li> <li>• Ensure all payment/return information is correct and/or perfected before being submitted to RDSS, to enable proper and prompt processing.</li> </ul>
F-10	<p>PSB should communicate the following recommendations to the Filing Methods and Budget Section (FMB) to assist in the reduction of taxpayer's sending paper copies of e-filed returns; which will reduce processing delays and notices being sent to taxpayers in error:</p> <ul style="list-style-type: none"> <li>• Continue to encourage, campaign, and advertise e-pay to taxpayers and practitioners.</li> <li>• Educate taxpayers and practitioners <b>not</b> to send paper copies of e-filed returns with payments.</li> <li>• Revise form FTB 3582 to include; "Send only your payment and form FTB 3582 to FTB. Sending a paper copy of your e-filed tax return may cause a delay in processing."</li> </ul>

## IMPROVEMENTS

### Issue Identification and Resolution Process

The Executive Liaison Section (ELS) is responsible for responding to Legislative inquiries and taxpayers that have been unable to resolve their problems with FTB through normal channels. In addition, ELS:

- Responds to inquiries from FTB employees about their own accounts.
- Ensures that taxpayers' rights are protected.
- Identify problems and find solutions in a cooperative effort while recognizing the goals of the audit, collection and filing programs.
- Promotes integrity and responsibility so that their customers can rely on quality information and efficient service.

During the course of the Pipeline/Payment Processing Review, ELS and RDSS have streamlined the issue identification and resolution process by having ELS staff discuss all payment/return issues with RDSS management and providing the necessary supporting documentation. As a team, ELS and RDSS management will work together to resolve issues.

### New Encoding Machines

During the Month of December 2008, ICBS implemented three new Model NDP600 Quantum Encoding machines. The new encoders have improved performance with quicker report running capabilities and increased production to 9,000 checks encoded per hour per machine. They also have scanning capabilities but ICBS is not utilizing the function at this time, as it would require reengineering some of their business processes.

### Employment Development Department (EDD) Pilot

In January 2009, RDSS will partner with EDD on the Opex Eagle Pilot Project. This pilot will look at the feasibility of utilizing the latest mail processing machines to automatically sort, extract, image, and encode checks all in one system.

## CONCLUSION

PSB is responsible for processing and handling:

- More than 15 million PIT returns
- More than 1 million B&C returns
- 700,000 Homeowner and Renter Assistance Program Claims
- Over 12 million payments
- A variety of non-tax and contract data capture workloads

PSB's mission is to become more customer centered and to better deliver efficient business results by:

- Assuring the integrity of the tax and non-tax programs.
- Processing returns, claims, payments, refunds, and other tax and non-tax documents and information accurately and efficiently.
- Validating documents and information to make appropriate revenue adjustments.

Based on our review, we identified the following areas of concern:

- Payments are not being processed timely
- Payments are being misapplied
- Some missing payments are not tracked or monitored
- Unnecessary workloads are created
- Not all available cross-reference search tools are being utilized
- Payments are vulnerable to unauthorized access, destruction, and theft
- Payment processing procedures are not updated or documented

PSB processes millions of returns and payments annually. Process improvements can be made that will allow FTB to serve our customers to our fullest potential.

Please inform Internal Audit in writing, of your efforts to implement the recommendations after 60 days, 6 months, and 1 year from the date of this final report. The information you provide us will be used to determine the need for a follow-up review.

Internal Audit greatly appreciates the cooperation and assistance provided to us by you and your staff during our review. If you have any questions, please contact Dina Felisilda at 845-6234 or Celece Anderson 845-3721.

Philip Yu, Director  
Internal Audit Bureau

cc: S. Stanislaus  
L. Iwafuchi  
L. Crowe  
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**APPENDIX A**  
**FINDINGS & RECOMMENDATIONS**



**FINDING 1 (F-1):**      **Some Personal Income Tax (PIT) and Business Entities (BE) unidentified payments are not being processed timely, resulting in stale dated checks and loss of revenue to FTB.**

**CONDITION:**              When a PIT/BE payment cannot be processed due to lack of taxpayer information, the PIT and BE Video Units within the Receiving and Data Storage Section (RDSS) research the Taxpayer Information (TI) System or the Business Entities Tax System (BETS) and other cross-reference resources for proper identification so the payment can be applied correctly.

For the 2008 tax year (1/1/08 to 12/31/08), the Video Units processed the following PIT and BE unidentified payments.

Month	PIT	BE
January	110,774	35,245
February	89,343	27,265
March	85,331	69,435
April	146,792	137,107
May	97,504	48,190
June	88,408	46,685
July	96,382	42,150
August	88,379	39,050
September	93,517	49,590
October	81,749	63,796
November	78,884	75,333
December	80,218	33,740
<b>Total</b>	<b>1,137,281</b>	<b>667,586</b>

In August 2008, RDSS had 33 stale dated checks in their inventory that consisted of money orders, personal checks, and bank checks for PIT and BE payments and taxpayer garnishments.

RDSS determined all the checks to be stale dated; meaning aged longer than 6 months and would no longer be cashed by the bank. The PIT and BE Video Units within RDSS performed cross-reference searches but could not determine where the payment should be applied.

**(FINDING 1 (F-1) CON'T)**

All 33 stale dated checks were selected for review. The auditors found that:

- 7 money orders had enough information on them to be processed and cashed.
- 4 checks had enough information to identify the taxpayer's social security number (SSN) to apply the payments appropriately.
- 22 checks needed additional research to properly apply the payments.

As a result of our review, the following were also identified:

- Procedures do not exist for the processing of stale dated checks.
- Further research efforts could have been applied to determine payment application and any unidentified payments should have been placed into suspense.
- Seasonal staff were assigned to process complex payment workloads.
- PIT and BE Video Units do not have access to all the available cross-reference search tools to process PIT and BE payments.
- Form FTB 4735, Payment Identification Letter, misleads taxpayers from the true intent of the letter by stating, "This Is Not A Bill." The purpose of the letter is to obtain additional taxpayer information for correct payment application.

**CRITERIA:**

FTB's mission statement states, "The purpose of the Franchise Tax Board is to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness."

**EFFECT:**

Without obtaining further payment information there is:

- Loss of revenue to FTB.
- Increased taxpayer contact because taxpayers' accounts are not updated timely, correctly, or at all.

**CAUSE:**

Due to processing backlogs, limited resources, and lack of trained seasonal staff, payments were not processed timely.

**(FINDING 1 (F-1) CON'T)**

**RECOMMENDATION:**

RDSS should:

- Establish stale dated checks procedures.
- Process and cash the 7 money orders.
- Conduct additional research on the remaining 22 stale dated checks and resolve the 4 checks with the taxpayer's SSN.
- Assign additional permanent full-time staff at the analyst classification to work unidentified payments, stale dated checks, and complex workloads.
- Provide staff the necessary research tools, system access, and training to process PIT and BE payments.
- Work with Legal, Office of Resolution Management/Disclosure, and Fiscal Accounting to resolve outstanding stale dated check issues and to prevent reoccurrence.
- Revise the name and language of form FTB 4735, Payment Identification Letter to reflect the true intent of the letter.

**NOTE:**

As of 9/24/08, RDSS provided the following updates:

- PIT Video Staff received access to the Image Delivery Application Expansion (IDAX). IDAX allows authorized users to view the physical document and check that was processed by IPACS (Image Processing and Cashiering System).
- A select number of permanent PIT Video Staff received access to Lexis/Nexis.
- All permanent PIT Video Staff received access to the Accounts Receivable Collection System (ARCS). Each Earnings Withholding Order for Taxes (EWOT) and Order to Withhold (OTW) has a unique order number (18 digits). If the employer or financial institution writes the order number on the check, PIT Video Staff can trace a payment via the ARCS order number and accurately apply the payment.
- RDSS processed the remaining money orders and are conducting research on the other 26 payments.
- A case log for the stale dated checks has been established and updated with the current actions taken on each payment.
- RDSS will conduct a review of all Send Back letters for the week of September 29 - October 3, 2008 to determine if there are any trends in the types of checks that are sent back to the taxpayer, or if there are any training issues regarding staff.

**(FINDING 1 (F-1) CON'T)**

- RDSS utilized the Legal Department to obtain guidance on the proposed revisions to the PIT Video Call Procedures and to form FTB 4735, Payment Identification Letter.
- RDSS identified several current staff members with the necessary skill sets to work the more complex payment workloads.

As of 10/20/08, RDSS provided an update on the remaining 26 outstanding stale dated checks:

- 13 checks were identified and sent to the Numbering Unit within RDSS for processing. 5 of the 13 checks required highly skilled analysis in ARCS and the Business Entity Tax System (BETS).
- 10 unidentified checks were placed into suspense.
- 3 unidentified checks had form FTB 4735, Payment Identification Letter sent to the correct address.

**FINDING 2 (F-2):** Personal Income Tax (PIT) and Business Entity (BE) payments are being mis-applied to the incorrect taxpayer, tax year, or type of payment by the PIT and BE Video Units within the Receiving and Data Storage Section (RDSS).

**CONDITION:** Over the last three years, the Executive Liaison Section (ELS) received an increase in taxpayer contact due to payments being mis-applied to the incorrect taxpayer, tax year, or type of payment.

Tax Year (TY)	2006 (1/1/06 – 12/31/06)	2007 (1/1/07 – 12/31/07)	2008 As of (1/1/08 – 7/31/08)
<b>PIT &amp; BE Total Call Volumes</b>	74	133	193

The following examples of mis-applied PIT payments were provided:

Taxpayer sends FTB	PIT Video completes form FTB 6350, In-Lieu Remittance with:	Result
\$842.43 Proposed Assessment (PA) Payment for TY 2005	BILL Payment for TY 2007	<ul style="list-style-type: none"> <li>FTB refunded the payment in error.</li> <li>FTB sent Taxpayer Erroneous Refund Letter to recover the refund.</li> <li>Taxpayer has to re-send payment.</li> </ul>
\$686.01 PA Payment for TY 2005	BILL Payment for TY 2007	
\$145.00 PA Payment for TY 2006	BILL Payment for TY 2005	
\$40.00 PA Payment for TY 2004	BILL Payment for TY 2004 applied to incorrect Taxpayer	
\$900.00 Estimate Payment for TY 2006	BILL Payment for TY 2005	

The following mis-applied BE payment example was also provided:

Business Entity sent FTB	BE Video performs online data entry in BETS Conversation (R501) PYMT Data Request with:	Result
\$1,500.00 Estimate Payment for TY 2008	BILL Payment for TY 2008.	The integrity of the account is compromised because it does not reflect a correct audit trail.

**CRITERIA:**

The PIT Video Manual states, “The primary function of the Video Units are to insure proper placement of incoming remittance”.

The BE Video Manual states, “One of the primary functions of the Video Unit is to ensure correct application of BE payments by identification of accounts”.

**EFFECT:**

Payments mis-applied to the wrong taxpayer, tax year, or type of payment could result in the following:

- Increased TP/BE contact if accounts are not updated correctly, timely, or penalties and interest are assessed in error.
- PIT Estimate payments are refunded in error instead of being applied to the taxpayer’s following year’s estimate tax payment.
- PIT PA payments are refunded in error instead of being placed in suspense.
- FTB has to recover the refund issued in error and the taxpayer would have to re-send the PIT Estimate or PIT PA payment to FTB.

**CAUSE:**

Staff processing the payments are inadvertently inputting the incorrect taxpayer, tax year, or selecting the wrong payment type.

**(FINDING 2 (F-2) CON'T)**

**RECOMMENDATION:**

- RDSS should increase supervisor review of the completed FTB form 6350, In-Lieu Remittance Document and the in-lieu in BETS Conversation (\*\*\*\*) PYMT Data Requests for staff within the PIT and BE Video Units especially when estimated quarterly payments are due to ensure the correct payment information is being recorded.
- PIT & BE Video Units should post the payments carefully to TI/BETS to ensure the taxpayer's payments are processed and applied accurately.
- PIT Video Unit should access the Proposed Assessment Display in TI to check for any pending Notice of Proposed Assessments (NPA) with the same payment amount in order to avoid refunding the payment in error.

NOTE: ((\*\*)) indicates confidential and/or proprietary information redacted (Government Code section 6254.9).

**FINDING 3 (F-3):**      **The Bad Doc Desk missing payment workloads are not tracked, monitored, or resolved timely causing a potential loss of revenue to FTB.**

**CONDITION:**              Each day before 1:00PM, the Information Capture and Banking Section (ICBS) Encoding Lead manually performs the daily reconciliation of bank deposits to ensure the accuracy and integrity of the information being provided to Franchise Tax Board's (FTB's) Bank Desk, the State Treasurer's Office (STO), the State Controller's Office (SCO), and Financial Institutions.

The daily reconciliation process begins when documents and checks are imaged through the Image Processing and Cashiering System (IPACS) Scanners. Electronic data (batch number, total count, and amount of each check) from IPACS is imported to the encoding machines.

FTB utilizes encoding machines to process all checks and money orders. The encoders identify each check and money order, endorse it, and sort it to the correct bank.

The *Missing Items Report* will automatically generate if a batch of checks processed through the encoders does not match the electronic information transferred from the IPACS Scanners. Missing items can include but is not limited to payments misplaced, attached to another check, miskeyed (scanned checks requiring manual correction), or left in the high-speed IPACS Scanners.

If the Encoding Lead locates the missing items, the check is endorsed and sorted to the correct bank. Missing items not located prior to the 1:00PM bank time are extracted and not included in the daily deposit.

On a daily basis, the Bad Doc Desk within ICBS generates the *Missing Items Reports* for follow-up and resolution of unresolved missing payments. If the physical check cannot be located, staff working at the Bad Doc Desk attempts to resolve the missing payment by:

- Accessing the Taxpayer Information (TI) System or the Business Entity Tax System (BETS) once or twice a month to see if the payment processed.
- Contacting the taxpayer via telephone and/or mail for resolution.



**(FINDING 3 (F-3) CONT)**

The auditors identified the following:

- Written procedures do not exist for the Bad Doc Desk.
- Missing payment workloads are not tracked, monitored, or resolved timely. As a result, ICBS is unable to provide us the statistical data (volume) of missing payments. During peak season, locating missing payments can take up to 3 months if they are located at all. For example, in September 2008, 4 missing payments were never resolved or located.
- Audit trails do not exist to document attempted payment resolution to include: whether staff checked TI/BETS, initiated telephone contact, or sent a letter to the taxpayer.
- No prioritization process exists for check resolution.

**CRITERIA:**

FTB's mission statement states, "The purpose of the Franchise Tax Board is to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness."

**EFFECT:**

By not tracking, monitoring, or resolving the missing payment workload, the following could result:

- Potential loss of revenue to FTB.
- Payments, especially those that are time sensitive, can be processed untimely, incorrectly, or not at all.
- FTB can incur bank charges when the taxpayer has to cancel or place a stop payment on the check that was misplaced during processing.
- Possible duplication of efforts due to no audit trail.
- Taxpayer could receive duplicate letters or telephone calls due to the lack of communication and audit trail as to what actions have been taken.
- Taxpayer contact increases because taxpayers' accounts are not updated timely or not at all.

**CAUSE:**

ICBS lacks the resources and proper skill sets to create or develop a system for the Bad Dock Desk.

**(FINDING 3 (F-3) CON'T)**

**RECOMMENDATION:**

To ensure the missing payments are resolved timely and in an orderly fashion, ICBS should:

- Establish written procedures for the Bad Doc Desk to resolve missing payments.
- Create a database to track, monitor, and prioritize missing payment workloads.
- Establish timeframes when to check TI/BETS, initiate telephone contact or send a letter to ensure taxpayers are contacted timely.

**FINDING 4 (F-4):** Form FTB 6352, Business Entity Memorandum Of Remittance cannot be scanned and processed by the Image Processing and Cashiering System (IPACS); therefore, causing delays in payment processing.

**CONDITION:** The Business Entity (BE) Video Unit of Receiving & Data Storage Section (RDSS) and other business areas within the Franchise Tax Board (FTB) utilize either of the following procedures to apply payments to the Business Entities Tax System (BETS) when business entities do not enclose supporting payment instructions or documentation:

- Performs an online data entry in BETS Conversation (\*\*\*\*) PYMT Data Request, and prints a copy of the transaction (that is scannable) to accompany the payment.
- Completes form FTB 6352, Business Entity Memorandum of Remittance.

The auditors found that the IPACS cannot read or capture data from form FTB 6352. When form FTB 6352 is used, the BE Video Unit has to create a separate scannable in-lieu form in order for IPACS to process the payment.

**CRITERIA:** FTB's General Procedures Manual (GPM) Section 6620 states, "all forms must be reviewed to ensure they are needed and they are easy to understand."

**EFFECT:** Utilizing form FTB 6352, Business Entity Memorandum of Remittance results in the following:

- An additional processing step to create a separate scannable in-lieu form by the BE Video Unit may cause payments, especially those that are time sensitive, to be processed untimely.
- Increase taxpayers' contact because taxpayers' accounts are not updated timely.
- An unnecessary workload is created for the BE Video Unit.

**CAUSE:** Staff utilizing form FTB 6352, Business Entity Memorandum of Remittance was not aware that the forms were not scannable or did not have access to BETS Conversation (\*\*\*\*), PYMT Data Request.

NOTE: ((\*\*)) indicates confidential and/or proprietary information redacted (Government Code section 6254.9).

**(FINDING 4 (F-4) CON'T)**

**RECOMMENDATION:**

In order to process payments in a timely manner when business entities do not enclose payment instructions or documentation, we recommend the following:

- Staff should utilize only the online data entry in BETS Conversation (\*\*\*\*) PYMT Data Request, and print a copy of the transaction to accompany the payment.
- Inform all users to discontinue the use of form FTB 6352, Business Entity Memorandum of Remittance, to avoid processing delays and additional workload for the BE Video Unit and update procedures accordingly.

NOTE: ((\*\*)) indicates confidential and/or proprietary information redacted (Government Code section 6254.9).

**FINDING 5 (F-5):** An employee from the Business Entity (BE) Video Unit within the Receiving and Data Storage Section (RDSS) is performing collection activities that should be completed by a Collector.

**CONDITION:** The Express Mail Unit within the RDSS processes all overnight mail that has a tracking number received from vendors such as FedEx, USPS Overnight, DHL, and Golden State Express Mail. Express Mail is sorted into the following categories:

- **Named/specific Individuals**, for e.g. Auditors, Collectors, etc.
- **Miscellaneous Express Mail** for Administrative and Special Projects (bearing 7 different P.O. Box Numbers).
- **General Express Mail** for Business Entities, Homeowner and Renter Assistance, Non-Tax Debt, and Personal Income Tax (bearing 4 different P.O. Box Numbers).
- **Corp Express Mail** for a list of 118 specific Collectors performing corporate collection activities.

Express Mail is then routed as follows:

- For mail addressed to specific individuals, Express Mail Unit Staff contacts the individual to determine if mail can be picked up or routed via Interoffice Mail.
- Miscellaneous Express Mail items are supposed to be picked up by the recipient or designee within 24 hours of being notified by the Express Mail Unit Staff. If an item is not picked up or specific handling instructions are not provided, the item is routed via Interoffice Mail.
- General Express Mail is routed to their respective addressee via Interoffice Mail.
- Corp Express Mail is routed to a Tax Program Assistant in the BE Video Unit affectionately called "Corp Bob". On a full-time basis, Corp Bob performs the following:
  - Opens the mail and analyzes the account in BETS.
  - Contacts specific Lead/Collector to inform them that express mail has been received and the contents of package.
  - Works with the Collector to determine payment application.
  - Leaves a voice message stating, "express mail received" if the Lead/Collector is not immediately available.
  - Determines payment application if the Lead/Collector does not call back within the same day.

**CRITERIA:** FTB's General Procedures Manual (GPM) Section 6435 states: "The Receiving Section sorts and opens mail and directs it to the addressee."

**(FINDING 5 (F-5) CONT)**

The Collection Procedure Manual's (CPM) Case Processing Policy, Section 1.0.5.2 states, "It is the responsibility of the collection staff to analyze, plan, document, and manage collection cases to ensure that they are prepared, processed and completed using current information and the most effective and responsible strategies".

**EFFECT:**

Additional work is created for Express Mail Unit Staff who has to match mail addressed to an individual to the 118 names on the Corp Express Mail List to ensure that the mail is routed to "Corp Bob".

When express mail is routed to "Corp Bob" in the BE Video Unit:

- An unnecessary workload is created which in turn is causing the BE Video Unit to lose one personnel resource.

**CAUSE:**

"Corp Bob" provides services to a select group of Collectors by processing their Corp Express Mail workloads. This has become an accepted business practice in the BE Video Unit for many years.

**RECOMMENDATION:**

To promote operation efficiency and encourage adherence to office policies and procedures, we recommend the following:

- Eliminate the Corp Express Mail Sort to reduce the unnecessary workload for Express Mail Unit Staff and free up resources for the BE Video Unit and update procedures accordingly.
- Express Mail addressed to the list of Collectors in the Corp Express Mail category should be treated the same as those in the named/specific individual category.

**FINDING 6 (F-6):**        **The Miscellaneous Unit within the Receiving and Data Storage Section (RDSS) processes payment workloads that should be done by a different business area.**

**CONDITION:**            The Miscellaneous Unit prepares and corrects Personal Income Tax (PIT) and Bank and Corporation (B&C) documents other than returns for processing. In addition, the following mail is sorted and routed to the appropriate business areas within 24 hours of receipt:

- PIT/B&C payments received without a payment document/correspondence.
- Box Mail received for payments in response to billing statements, tax return requests, PIT Audit, or Collection purposes.
- Branch Mail received from District Offices
- Misdirected Mail intended for another State Agency.

The auditors identified that the Miscellaneous Unit:

- Processes PIT payments received without a payment document/correspondence instead of routing them to the PIT Video Unit.
- Processes Box Mail instead of routing them to the appropriate business area.
- Does not have access to all the available cross-reference search tools to process PIT payments.

**CRITERIA:**            Miscellaneous Manual states, "Remittance without a payment document should be routed to the Video Unit.

Miscellaneous Manual states, "Box Mail should be sorted daily upon receipt and routed out to the appropriate business area within 24 hours."

PIT Video Manual states, "The primary function of the Video Unit is to insure proper placement of incoming remittance by utilizing TI, Secretary of State (SOS), and BETS cross-reference utilities. Work is received from all sections within Receiving and worked on a priority basis, oldest date first. If the Video search is successful and the proper entity is identified, payments will be applied accordingly."

**EFFECT:**              Processing PIT payments without all the necessary documents/correspondence or available cross-reference search tools causes payments to be mis-applied, processed incorrectly or untimely.

**(FINDING 6 (F-6) CON'T)**

**CAUSE:** Staff processing Boxed Mail or PIT Payments without a payment document/correspondence for other business area has become an accepted business practice within the Miscellaneous Unit for several years.

**RECOMMENDATION:** To promote operational efficiency and encourage adherence to office policies and procedures, the Miscellaneous Unit should:

- Route PIT payments without a payment document/correspondence to the PIT Video Unit for proper payment application.
- Route Box Mail to the appropriate business areas.

**NOTE:** As of December 18, 2008, The Miscellaneous Unit has implemented both recommendations.



**FINDING 7 (F-7):**      **The lack of accounting for and monitoring of the Receiving and Data Storage (RDSS) badge clips compromises the security of the Receiving area.**

**CONDITION:**              RDSS is comprised of 9 units that receive and prepare the mail for preprocessing for all programs including Personal Income Tax (PIT), Business and Corporation Tax (B&C), Homeowner Renters Assistance Program (HRA), and non-tax workloads.

Access to RDSS is restricted to authorized personnel. FTB Security Guards, Managers, and RDSS supervisors issue colored badge clips (green clips have unlimited access to files, and blue clips are limited to Administrative areas and main aisle ways.) to RDSS staff or to an FTB employee with an on-going business need.

The auditors identified the following:

- Procedures do not exist for the issuance, distribution, and recovery of colored badge clips.
- Current inventory of colored badge clips is unknown.
- No log is maintained for individuals in possession of colored badge clips.
- The only existing criterion to obtain a colored badge clip is an on-going business need to be in the Receiving area.
- FTB Security Guards monitor the entrances to the receiving area; yet also have the authority to distribute colored badge clips.
- Colored badge clips are available for purchase from local office supply and on-line retailers.

The auditors identified the following compensating factors:

- FTB Security Guards are located at both entrances of the Receiving area during business hours
- On-duty CHP Officer during peak filing season
- 24 hour camera surveillance

**CRITERIA:**              FTB Policy File 9201 states, "The department treats all information received, maintained and generated as confidential unless it is specifically made public by statute."

The Internal Revenue Service's Publication 1075, Section 4.3.1 on Restricted Area states in part, "Using restricted areas is an effective method for eliminating unnecessary traffic through critical areas, thereby reducing the opportunity for unauthorized access and/or disclosure or theft of Federal tax information."

**(FINDING 7 (F-7) CON'T)**

Information Security Policy Section 445, Environmental Security & Controls states, "Existing or proposed safeguards and recommended security design standards for accommodation must be periodically evaluated against the current threat and risk assessment. The FTB must use security perimeters to protect areas that contain information-processing facilities."

**EFFECT:** Taxpayer information and payments are vulnerable to unauthorized access, destruction, and theft.

**CAUSE:** The badge readers located at the entrances to the Receiving Section were never activated due to the volume of staff that would be waiting in the corridor to badge in during peak season; therefore, colored badge clips were issued as an alternative.

**RECOMMENDATION:**

In order to ensure the security of taxpayer information and payments RDSS should either:

- Work with Worksite Security regarding the options available for activating the badge readers.  
Or
- Monitor and track the colored badge clips

In addition RDSS should:

- Establish written procedures for the distribution, tracking, and recovery of colored badge clips.
- Assign only RDSS Managers and Supervisors to distribute the colored badge clips.
- Assign staff to track and monitor the colored badge clips.
- Explore the option of restricting DGS janitorial services to business hours.

**FINDING 8 (F-8):** Some of the procedures within the Processing Services Bureau (PSB) are outdated or are not documented.

**CONDITION:** As part of the Filing Division, PSB is responsible for processing and handling more than 15 million individual tax returns, more than 1 million corporate and business returns, 700,000 Homeowner and Renter Assistance (HRA) Program claims, 11 million payments, and a variety of non-tax and contract data capture workloads.

The auditors identified the following Receiving and Data Storage Section (RDSS) procedures located on the FTBNet2 Filing Division Manuals website to be outdated:

On-Line	Last Revised Date
Personal Income Tax (PIT) Video Manual	December 2003
Business Entity (BE) Video Manual	December 2002
Miscellaneous Manual	May 2008
Machines Manual	December 2003
Extractions Manual	December 2006
Numbering Manual	December 2006
Screening Manual	December 2003
Truck Control Manual	December 2006

Some examples of outdated/incorrect information are as follows:

Outdated information	Current Practice
PIT Video Manual – “The 15th – 20th is considered timely.”	PIT Video Manual – “Five business days after the 15 <sup>th</sup> is considered timely.”
Extractions Manual – “Always pin check flush to left side of return or document under the taxpayer’s entity portion (or if specified elsewhere).”	Due to health and safety concerns straight pins are no longer utilized to secure checks to documents.

(FINDING 8 (F-8) CON'T)

Omitted from current BE Video Manual on-line procedures.	<b>BE Video Manual - Send backs</b> “The amount written in numbers is called the courtesy amount. The amount written in words is called the legal amount. When the courtesy and legal amounts on a check are different: <ul style="list-style-type: none"> <li>• The legal amount is the only amount that can be accepted.</li> <li>• Never accept the courtesy amount even if it matches the document.”</li> </ul>
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RDSS Management provided paper copies of the following procedures that have been updated or are in the process of being updated, but are not currently available on-line:

- PIT Video Manual – August 2008
- BE Video Manual – December 2007
- Express Mail – December 2006

Documented procedures do not exist for the following processes:

Processes	Program Area
Daily Reconciliation of Bank Deposits	Information Capture and Banking Section (ICBS)
Bad Doc Desk	
Processing of Stale Checks	RDSS
Security Access to RDSS	
Certified Mail Green Cards	

**(FINDING 8 (F-8) CON'T)**

<b>CRITERIA:</b>	<p>State Administrative Manual (SAM) Section 70000 states, "Policies and procedures ensure management's directives are carried out and help ensure that necessary actions are taken to minimize risks to achievement of the entity's objectives."</p> <p>SAM Section 20050 states, "Each system an entity maintains to regulate and guide operations should be documented through flowcharts, narratives, desk procedures, and organizational charts."</p>
<b>EFFECT:</b>	<p>There is the potential for inconsistent, incomplete, and/or incorrect completion of the processes.</p>
<b>CAUSE:</b>	<p>Updating and/or documenting formal written procedures has not been a priority for PSB's management and staff.</p>
<b>RECOMMENDATION:</b>	<p>In order to ensure all processes are completed consistently, completely, and correctly PSB should:</p> <ul style="list-style-type: none"><li>• Establish written and/or updated procedures to reflect current practices.</li><li>• Ensure all procedures are shared with, and available to staff.</li></ul>

**FINDING 9 (F-9):**        **Payments or returns, which require priority processing, are not being processed timely or efficiently; therefore, causing processing delays.**

**CONDITION:**            Various business areas including, but not limited to, Audit, Legal, and Advocates Office receive and prepare payments that require priority processing or returns that need to be walked through (hand walked from unit to unit) the Receiving Pipeline and processed the same day.

In addition, The Data Services & Storage Section (DSSS) within the Receiving and Data Storage Section (RDSS) will often discover unprocessed payments or returns inadvertently attached to another document. Once found, these unprocessed payments/returns are routed to RDSS for priority processing.

Payments/returns that need to be corrected, require priority processing, or special handling are submitted or routed to unsecured bins located at the entrance of the RDSS.

The business area submitting payments/returns attach form FTB 7020, Return Transmittal to the face of the payment/return along with one of the following log sheets in order to provide RDSS with the necessary information required for processing:

- *Priority Processing/Walk Thru Log* (only utilized by the Advocates Office) that consists of the Date, Time, Contact Person, Account Number, and Comments
- *Priority Process/Walk Thru-Check Log* that consists of the Date, Time, Contact Person, Section, Account Number, Amount, and Comments

RDSS staff monitor and pick-up payments/returns with the logs from the clear bins several times a day. In addition RDSS Staff enter the payment/return and log information into one of the following additional Log Sheets:

Log Sheet	Information
Walk-Thru Log (PIT) Non-Remit	<ul style="list-style-type: none"><li>• Today's Date</li><li>• Social Security Number /CORP #</li><li>• Return Year</li><li>• Return Type</li><li>• Requestor Name &amp; Phone</li><li>• Time Logged In</li><li>• Employee Initial (who collected and entered payment/return)</li></ul>
Walk-Thru Log (CORP) Non-Remit	

(FINDING 9 (F-9) CON'T)

Log Sheet	Information
Walk-Thru Log (PIT) Remit	<ul style="list-style-type: none"> <li>• Date</li> <li>• Social Security Number/CORP #</li> <li>• Return Year</li> <li>• Return Type</li> <li>• Remit Amount</li> <li>• Requestor Name &amp; Phone</li> <li>• Time Logged In</li> <li>• Employee Initial (who collected and entered payment/return)</li> </ul>
Walk-Thru Log (CORP) Remit	

The payment/return is sent through the Receiving Pipeline, keyed by Information Capture and Banking Section (ICBS), and updated to the Taxpayer Information System (TI) or the Business Entities Tax System (BETS) during the overnight batch process.

Completed *Priority Processing/Walk Thru Logs* and the *Priority Process/Walk Thru-Check Logs* are returned to and stored in the clear bins.

The auditors identified the following inefficiencies:

- Procedures do not exist for the maintenance or retention of the *Priority Processing/Walk Thru Log and the Priority Process/Walk Thru-Check Log*.
- RDSS staff does not notify the submitting business area when a payment/return has been priority processed.
- Unprocessed payments/returns routed to the incorrect unit.

Staff from various business areas:

- Submit form FTB 7020, Return Transmittals with incomplete, not clear, or contradicting instructions, potentially causing processing delays. In one instance, a request was held for one week because the return transmittal did not include the requestor's name or phone number.
- Neglect to submit the *Priority Processing/Walk Thru Log or the Priority Processing/Walk Thru-Check Log* with their payment/return.
- Submit returns that do not include corrections, RDSS staff is required to perfect returns (transfers monetary figures to the correct return) that are filed on the wrong tax year.

**(FINDING 9 (F-9) CON'T)**

Furthermore, the auditors identified the following risks of taxpayer information being vulnerable to unauthorized access, disclosure, destruction, and theft:

- Completed *Priority Processing/Walk Thru Logs and the Priority Process/Walk Thru-Check Logs* (containing confidential taxpayer information) remains in the unsecured bins for an unspecified period of time.
- Comments placed on the Messenger Service Route Slip indicate an unprocessed payment/return is inside the envelope.

**CRITERIA:**

FTB's mission statement states, "The purpose of the Franchise Tax Board is to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness."

FTB Policy File 9201 states, "The department treats all information received, maintained and generated as confidential unless it is specifically made public by statute."

The Internal Revenue Service's Publication 1075, Section 4.3.1 on Restricted Area states in part, "Using restricted areas is an effective method for eliminating unnecessary traffic through critical areas, thereby reducing the opportunity for unauthorized access and/or disclosure or theft of Federal tax information."

**EFFECT:**

- Taxpayer information and payments are vulnerable to unauthorized access, disclosure, destruction, and theft.
- Payments/returns that are perfected by RDSS staff could be processed incorrectly or not following the department's policies and procedures.
- Payments/returns, especially those that are time sensitive, may be processed incorrectly or untimely thus increasing taxpayer contact.

**CAUSE:**

Staff submits form FTB 7020, Return Transmittals and logs with incomplete information or instructions that need additional clarification.



(FINDING 9 (F-9) CON'T)

**RECOMMENDATION:**

In order to process payments or returns that require priority processing or special handling properly and in a timely manner:

RDSS should:

- Consolidate the *Priority Processing/Walk Thru Logs* and the *Priority Process/Walk Thru-Check Logs* into one log sheet for staff to submit their payments/returns that require priority processing or special handling.
- Establish a policy and procedure for retention and/or destruction for the consolidated log sheet.
- Educate and train the business areas on the completion of the consolidated log sheet.
- Inform the business areas when the payment/return has been processed.
- Remove and secure completed consolidated log sheets from the bins at the end of each business day.

DSSS should:

- Hand deliver unprocessed payments/returns to RDSS.

Business Areas should:

- Submit form FTB 7020, Return Transmittals with complete and clear instructions.
- Ensure all payment/return information is correct and/or perfected before being submitted to RDSS, to enable proper and prompt processing.

**FINDING 10 (F-10):** E-file taxpayers who send FTB their payment with a paper copy of their e-filed return may receive a Statement of Tax Due (STD) notice in error.

**CONDITION:** Taxpayer Advocates Office identified issues regarding taxpayers who e-file their tax return then send their payment on or around April 15th, resulting in STD notice being sent to the taxpayer.

Taxpayer e-files and...	FTB will...	Result
Sends payment with a paper copy of the e-filed return	Post original e-filed return and also post paper copy of e-filed return as a duplicate return with payment	STD notice sent with balance due

Taxpayers will receive a STD notice when:

- The paper copy of the e-filed return and payment are processed together.
- The original e-filed return posted to the system, has no payment associated to it and shows a balance due.
- Due to processing delays the payment is processed but the paper copy of the e-filed return is stored in the warehouse until remit PIT returns are processed.
- Payments are not posted to Taxpayer Information System (TI) until return processing. Upon return processing, the account will fall out as a multiple return to Information Validation System (IVS) for investigation.

Taxpayers who file electronically and decide to pay at a later date are instructed to send their payment with form FTB 3582, Payment Voucher for Individual e-filed Returns. Instructions for form FTB 3582 states, "Do not send the paper copy of your tax return to the FTB. Keep it for your records." And the voucher states, "Do not send a paper copy of your tax return with the payment voucher." The instructions do not advise taxpayers that sending a paper copy of the previously e-filed tax return will cause a delay in processing.

**CRITERIA:** FTB's mission statement states, "The purpose of the Franchise Tax Board is to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness."

**(FINDING 10 (F-10) CON'T)**

<b>EFFECT:</b>	<p>When taxpayers receive STDs in error, the following could result:</p> <ul style="list-style-type: none"><li>• Increased taxpayer contact</li><li>• Negative press and publicity</li><li>• Increased workloads for the IVS that further delays processing</li></ul>
<b>CAUSE:</b>	<p>Taxpayers are not following the instructions on form FTB 3582, and are sending paper copies of their e-filed tax return with their payment.</p> <p>Form FTB 3582, does not clearly indicate the potential effects of sending FTB a paper copy of a previously e-filed tax return unless specifically requested.</p>
<b>RECOMMENDATION:</b>	<p>PSB should communicate the following recommendations to the Filing Methods and Budget Section (FMB) to assist in the reduction of taxpayer's sending paper copies of e-filed returns; which will reduce processing delays and notices being sent to taxpayers in error:</p> <ul style="list-style-type: none"><li>• Continue to encourage, campaign, and advertise e-pay to taxpayers and practitioners.</li><li>• Educate taxpayers and practitioners <b>not</b> to send paper copies of e-filed returns with payments.</li><li>• Revise form FTB 3582 to include; "Send only your payment and form FTB 3582 to FTB. Sending a paper copy of your e-filed tax return may cause a delay in processing."</li></ul>

**APPENDIX B**  
**RESPONSES TO RECOMMENDATIONS**

**APPENDIX C**  
**EVALUATION OF RESPONSES**

Auditor's Evaluation of Auditee's Response  
February 11, 2009

Internal Audit received the following responses from the Processing and Services Bureau (PSB) in regards to the findings and recommendations made in the Pipeline/Payment Processing Review. Below are Internal Audit's comments for findings 1, 5, and 7.

**F-1    Some Personal Income Tax (PIT) and Business Entities (BE) unidentified payments are not being processed timely, resulting in stale dated checks and loss of revenue to FTB.**

- **RDSS should assign additional permanent full-time staff at the analyst classification to work unidentified payments, stale dated checks, and complex workloads.**

Response:

1. The PIT Video Unit has processed all outstanding checks and has implemented procedures to minimize the potential for stale dated checks. Staff in the PIT Video Unit uses a checklist process to help identify all payments deemed "unidentified". These "unidentified" payments are worked regularly by skilled staff to determine what steps are needed to apply the payment accurately. Procedures are in place to apply or return to taxpayers all payments prior to a "stale" date.
5. RDSS will continue to utilize seasonal clerks in both the PIT and BE Video Units as it has proven to be the most efficient and cost effective way to ensure prompt and accurate payment application. As the chart under F1 shows, monthly payment volumes in both the PIT and BE Video Units fluctuate dramatically. Each filing season dictates that the PIT Video will double in size to allow for timely tax return and payment processing. For the months of January, April and May RDSS would need to either redirect 15-20 internal permanent staff or "borrow" staff from other sections, bureaus or divisions. This redirection or borrowing would create backlogs in the areas where staff has temporarily vacated. The redirected or borrowed staff would still need the same training and review as our seasonal clerks. Additionally, there has been no conclusive analysis that would indicate that permanent staff applies payments more accurately than seasonal clerks
6. A review of other agencies payment application staffing shows a use of similar classifications. Employment Development Department uses Office Assistant, Office Technician and seasonal clerks for their payment processing. The Department of Child Support Services contracts out payment application to the Bank of America. The Internal Revenue Service also contracts out estimate payment application work to the Bank of America. The Bank of America uses temporary staff for both agencies.

Auditor's Evaluation of Auditee's Response  
February 11, 2009

Internal Audit's Comments:

Internal Audit is aware of the challenges the PSB encounters due to fluctuating payment volumes in both the PIT and BE Video Units and respects PSB's concerns regarding no conclusive analysis that would indicate that permanent staff applies payments more accurately than seasonal clerks. However, Internal Audit's position is that unidentified payments, stale dated checks, and complex payment workloads require detailed account analysis in TI, BETS, and ARCS. Therefore, Internal Audit stands by the recommendation of assigning additional permanent full-time staff at the analyst classification to work unidentified payments, stale dated checks, and complex workloads to:

- Meet PSB's goal of processing returns, claims, payments, refunds, and other tax and non-tax documents and information accurately and efficiently.
- Serve our customers to our fullest potential.

**F-5    An employee from the Business Entity (BE) Video Unit within the Receiving and Data Storage Section (RDSS) is performing collection activities that should be done by a different business area.**

**To promote operational efficiency and encourage adherence to office policies and procedures, we recommend the following:**

- **Eliminate the Corp Express Mail Sort to reduce the unnecessary workload for Express Mail Unit Staff and free up resources for the BE Video Unit and update procedures accordingly.**
- **Express Mail addressed to the list of Collectors in the Corp Express Mail category should be treated the same as those in the named/specific individual category.**

Response:

1. The goal of the BE Video Unit is to provide prompt and accurate application of payments. The current process does provide for both the prompt and accurate application of payments since the payments are being applied at the direction of a collector. Since alternatives to the current process have not been thoroughly analyzed it would be premature for RDSS to commit to implement a change to this process.
2. RDSS analyses indicates that if BE Express mail is processed the same as PIT Express mail, the Express Desk would route 30-50 live checks daily to collectors throughout the FTB campus. This routing of live checks would both expand the risk of lost payments and delay any payment application. This solution creates signification problems and should not be considered.

Auditor's Evaluation of Auditee's Response  
February 11, 2009

3. RDSS would like to work with the Accounts Receivable Management Division business users to discuss the potential for changes. RDSS will seek a solution with the ARM Division that meets the goal of prompt and accurate payment application and their customer service expectations. The estimated completion date is 6/30/09.

Internal Audit's Comments:

Internal Audit respects that PSB has not had the opportunity to fully analyze the current process and has concerns regarding alternative solutions. However, the current service of processing payments is only provided to a select group of collectors. Collectors that are not on the Corp Express Mail Sort continue to receive and process payments as intended. Internal Audit stands by the recommendation to:

- Eliminate the Corp Express Mail Sort to reduce the unnecessary workload for the Express Mail Unit Staff and free up resources for the BE Video unit.  
Or
- Completely eliminate the process of sending payments out of the Receiving area and process all payments for Collectors, Audit, etc. in the BE and PIT Video Sections.

**F-7    The lack of accounting for and monitoring of the Receiving and Data Storage (RDSS) badge clips compromises the security of the Receiving area.**

In order to ensure the security of taxpayer information and payments RDSS should either:

- Work with Worksite Security regarding the options available for activating the badge readers.  
Or
- Monitor and track the colored badge clips.

Response:

1. RDSS will not create a log or monitor blue badge clips since the blue badge clips can be purchased at any office supply retail store. RDSS will have all managers, supervisors and leads (70 staff) monitor their individual business area for unauthorized or loitering staff.



Auditor's Evaluation of Auditee's Response  
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Internal Audit's Comments:

Internal Audit acknowledges PSB's efforts and challenges with securing the Receiving Section. However, since colored badge clips can be purchased at any office supply retail store, Internal Audit's position stands that they should be monitored and tracked. In addition, PSB should continue to work with the Privacy Security and Disclosure Bureau to explore alternatives of monitoring and controlling access to the Receiving Section.

Internal Audit will monitor the progress of PSB's implementation of the recommendations through the 60-day, 6-month and 1-year follow-up.



chair **John Chiang**  
member **Betty T. Yee**  
member **Michael C. Genest**

State of California  
**Franchise Tax Board**

04.24.09

To: Philip Yu  
From: Marlene White

Subject: - Pipeline/Payment Processing 60-Day Response

**Finding 1 (F-1): Some Personal Income Tax and Business Entities (BE) unidentified payments are not being processed timely, resulting in stale dated checks and loss of revenue to FTB.**

Response:

1. The PIT Video Unit has implemented procedures to minimize the potential for stale dated checks. Since implementation of new procedures there have been no stale dated checks.
2. PIT Video staff has been given access to the Accounts Receivable Collection System (ARCS), to assist in locating the correct account to apply the payments. Additionally, all PIT Video staff attended TI training. This expanded access and TI training has enabled staff to resolve "unidentified" payment issues quickly.
3. The BE Video unit continues to work with BES staff to help with payment identification issues. BES staff are highly skilled with BETS and other FTB systems.

**Finding 2 (F-2): Personal Income Tax (PIT) and Business Entity (BE) payments are being misapplied to the incorrect taxpayer, tax year, or type of payment by the PIT and BE Video Units within the Receiving and Data Storage Section (RDSS).**

Response:

1. All PIT Video staff attended specialized TI training. This training was specifically targeted for Receiving and showed staff how to recognize and apply Notice of Proposed Assessment payments.
  2. The PIT Video unit has implemented procedures to add additional search steps. These steps have resulted in a 43% decrease in send-back letters being mailed this year.
  3. BE Video staff now has access to BE ARCS. This access has provided staff with additional research capability to help apply payments accurately.
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**Finding 3 (F-3): The Bad Doc Desk missing payment workloads are not tracked, monitored, or resolved timely causing a potential loss of revenue to FTB.**

Response:

1. ICBS completed the Bad Doc procedures (copy attached). 1/
2. ICBS will create database to track, monitor and prioritize payment workload, estimated completion 5/31/09. This task is on track for the May 31 completion date.
3. ICBS will document these timeframe in the written procedures and log contact information into database, estimated completion 2/20/09. Completed.

**Finding 4 (F-4): Form FTB 6352, Business Entity Memorandum of Remittance can not be scanned and processed by the Image Processing and Cashiering System (IPACS): therefore, causing delays in payment processing.**

Response:

1. RDSS has developed a spreadsheet to track all users of Form FTB 6352. We will recommend the online entry, Conversation \*\*\*\*\* in BETS be utilized, and users print a copy of the transaction to accompany the payment.
2. The Executive Liaison Section is now utilizing \*\*\*\*\*, which has streamlined the payment process and eliminated BE Video Unit from the process.

**Finding 5 (F-5): An employee from the Business Entity (BE) Video Unit within the Receiving and Data Storage Section (RDSS) is performing collection activities that should be done by a different business area.**

Response:

1. The BE Video Unit now has access to BE ARCS and with the access have implemented new procedures for Express Mail. Receiving management met with ARM Collection Management to gain consensus to the new procedures. These new procedures have enabled the BE Video Unit to provide prompt and accurate application of payments and meet our collection customer needs. BE Video staff will only call ARM collection leads when comments on either BETS or ARCS are insufficient for accurate payment application.
2. ARM management has agreed to talk to their collection staff to ensure that the Express Mail process is utilized only when necessary. ARM Collection Express Mail has dropped significantly.

1/ "Bad Docs Procedures.doc" removed. Entire document is confidential proprietary information (Government Code section 6254.9).

NOTE: ((\*\*\*)) indicates confidential and/or proprietary information redacted (Government Code section 6254.9).

**Finding 6 (F-6): The Miscellaneous Unit within the Receiving and Data Storage and Data Section (RDSS) processes payment workloads that should be done by a different business area.**

Response:

1. This recommendation of moving all payment application process to the PIT Video Unit was implemented in December 2008 and the procedures have been updated.

**Finding 7 (F-7): The lack of accounting for and monitoring of the Receiving and Data Storage (RDSS) badge clips compromises the security of the Receiving area.**

Response:

1. RDSS has had discussions with Privacy, Security and Disclosure Bureau on alternatives to blue badge clips. We are exploring the costs and risks to each alternative.

**Finding 8 (F-8): Some of the procedures within the Processing Services Bureau (PSB) are outdated or are not documented.**

Response:

1. All eleven manuals for Receiving have been updated to reflect recent changes to procedures. These manuals are now all available on the shared server.
2. All manuals for Data Storage have been updated and available for staff on a shared server.
3. ICBS will document procedures for the Bad Doc Desk, and document the process for daily reconciliation of bank deposits. Estimated completion 2/02/09. (See F-3 above, procedures attached)

**Finding 9 (F-9): Payments or returns, which require priority processing, are not being processed timely or efficiently, therefore; causing processing delays.**

Response:

1. RDSS is analyzing the department use of the priority processing service. This service is very time consuming, expensive and should be utilized only when absolutely necessary. Once the process is thoroughly analyzed and a per item cost determined, RDSS will explore new procedures.
2. RDSS is working with the Executive Liaison Section to explore the possibility of an alternative to the priority process.

**Finding 10(F-10): e-file taxpayers who send FTB their payment with a paper copy of their e-filed return may receive a Statement of Tax Due (STD) notice in error.**

Response:

FMBB will address the recommendations as follows:

1. We will continue to distribute the new e-Pay Toolkit. The Toolkit provides practitioners with a poster, flyers, and an instruction sheet to assist clients with Web Pay. These products will be distributed at outreach events and e-services workshops. These products are also available online at [ftb.ca.gov](http://ftb.ca.gov), search [epay toolkit](#).
2. This year we modified our outreach materials to educate practitioners at e-services workshops and liaison meetings of the delays caused when a paper copy of the e-filed return is submitted with the payment. We also distributed an electronic message using our mass-mail distribution list.
3. Revisions were made to the FTB 3582 to provide additional clarification instructing the TP not to send in a copy of the tax return.



chair **John Chiang**  
member **Betty T. Yee**  
member **Michael C. Genest**

State of California  
**Franchise Tax Board**

08.26.09

To: Philip Yu  
From: Marlene White

Subject: - Pipeline/Payment Processing 6-Month Response

**Finding 1 (F-1): Some Personal Income Tax and Business Entities (BE) unidentified payments are not being processed timely, resulting in stale dated checks and loss of revenue to FTB.**

Response:

1. Both the PIT Video and BE Video Units have implemented procedures to minimize the potential for stale dated checks. Since implementation of new procedures, there have been no stale dated checks.
2. FTB 4735 (Send Back Letter) has been revised and is currently going through departmental review. Both PIT and BE Video Units are testing the revised FTB 4735.
3. The PIT Video unit has implemented procedures to add additional search steps for unidentified payments. Even with the volume of PIT Video workload increasing by 30%, these additional search steps have resulted in a 43% decrease in send-back letters (FTB 4735) being mailed this calendar year.

**Finding 2 (F-2): Personal Income Tax (PIT) and Business Entity (BE) payments are being misapplied to the incorrect taxpayer, tax year, or type of payment by the PIT and BE Video Units within the Receiving and Data Storage Section (RDSS).**

Response:

1. All PIT Video staff attended specialized TI training. This training was specifically targeted for Receiving staff so they can recognize and apply Notice of Proposed Assessment payments. All new PIT Video and BE Video staff will attend the same training.
  2. BE Video staff now access BE ARCS. This access has provided staff with additional research capability to help apply payments accurately.
  3. RDSS will request an AdHoc 12/31/09 to compare 2009 payment application data with prior years data. The results will be used to identify addition training needs for video staff.
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**Finding 3 (F-3): The Bad Doc Desk missing payment workloads are not tracked, monitored, or resolved timely causing a potential loss of revenue to FTB.**



Bad Docs  
Procedures.doc

1/

Response:

1. ICBS completed the Bad Doc procedures (copy attached). 1/
2. ICBS will create database to track, monitor and prioritize payment workload, estimated completion 5/31/09. This task has been pushed back due to loss of some key personnel in ICBS, this task fell behind. ICBS will have spreadsheet created by 12/31/09.
3. ICBS will document these timeframe in the written procedures and log contact information into database, estimated completion 2/20/09. Completed.

**Finding 4 (F-4): Form FTB 6352, Business Entity Memorandum of Remittance cannot be scanned and processed by the Image Processing and Cashiering System (IPACS): therefore, causing delays in payment processing.**

Response:

1. The BE Bankruptcy Unit in ARM, Executive Liaison Section and Business Entity Section are all now utilizing Conversation \*\*\*\*. These three business areas represent the majority of areas that were using FTB 6352.

**Finding 5 (F-5): An employee from the Business Entity (BE) Video Unit within the Receiving and Data Storage Section (RDSS) is performing collection activities that should be done by a different business area.**

Response:

1. The Express Mail process in the BE Video Unit has been re-engineered. The ARM collection area will only be contacted for payment identification purposes when comments on either BETS or ARCS are insufficient for accurate payment application.

1/ "Bad Docs Procedures.doc" removed. Entire document is confidential proprietary information (Government Code section 6254.9).

NOTE: ((\*\*)) indicates confidential and/or proprietary information redacted (Government Code section 6254.9).

**Finding 6 (F-6): The Miscellaneous Unit within the Receiving and Data Storage and Data Section (RDSS) processes payment workloads that should be done by a different business area.**

Response:

1. This recommendation of moving all payment application process to the PIT Video Unit was implemented in December 2008 and all procedures have been updated.

**Finding 7 (F-7): The lack of accounting for and monitoring of the Receiving and Data Storage (RDSS) badge clips compromises the security of the Receiving area.**

Response:

1. RDSS has had discussions with Privacy, Security and Disclosure Bureau on alternatives to blue badge clips. We will continue to explore the costs and risks to each alternative.

**Finding 8 (F-8): Some of the procedures within the Processing Services Bureau (PSB) are outdated or are not documented.**

Response:

1. All Manuals have been revised, updated and available online.

**Finding 9 (F-9): Payments or returns, which require priority processing, are not being processed timely or efficiently, therefore; causing processing delays.**

Response:

1. RDSS is developing a tax return priority process that is not as costly or cumbersome as the current walk-thru process. The Executive Liaison Section is the pipeline's primary customer and has already given conceptual approval. The new process will be in production by 12/31/2009.
2. RDSS has completed the analysis of "pipeline" priority processing costs and will submit an issue paper to PSB management with recommendations. Our preliminary analysis shows the cost of priority processing in excess of \$100 per tax return.



**Finding 10 (F-10): e-file taxpayers who send FTB their payment with a paper copy of their e-filed return may receive a Statement of Tax Due (STD) notice in error.**

Response:

FMBB will address the recommendations as follows:

1. We continue to distribute the e-Pay Toolkits to practitioners. The Toolkit provides practitioners with a poster, flyers, and an instruction sheet to assist clients with Web Pay. These products are being distributed at outreach events and e-services workshops. The products are also available online at [ftb.ca.gov](http://ftb.ca.gov), search epay toolkit.
2. We modified our outreach materials to educate practitioners at e-services workshops and liaison meetings of the delays caused when a paper copy of the e-filed return is submitted with the payment. We distributed electronic messages using our mass-mail distribution list to remind practitioners of the delay when this happens; we will continue to send out reminders.
3. Revisions were made to the FTB 3582 to provide additional clarification instructing the TP not to send in a copy of the tax return. Complaints to TSCS and the Advocate have reduced, so it appears these efforts have helped reduce the problem. We are requesting an AdHoc to verify.



chair **John Chiang**  
member **Betty T. Yee**  
member **Michael C. Genest**

State of California  
**Franchise Tax Board**

02.26.10

To: Philip Yu  
From: Marlene White

Subject: - Pipeline/Payment Processing 1 Year Response

**Finding 1 (F-1): Some Personal Income Tax and Business Entities (BE) unidentified payments are not being processed timely, resulting in stale dated checks and loss of revenue to FTB.**

Response:

1. Since implementation of new procedures there have been no stale dated checks.
2. A revised FTB 4735 (Send Back Letter) has made it through departmental review and is currently being used by both PIT and BE Video Units.
3. The PIT Video unit has implemented procedures to add additional search steps for unidentified payments. Even though the volume of PIT Video work has increased by over 10%, the number of Send Back Letters decreased by 27% in 2009.

**Finding 2 (F-2): Personal Income Tax (PIT) and Business Entity (BE) payments are being misapplied to the incorrect taxpayer, tax year, or type of payment by the PIT and BE Video Units within the Receiving and Data Storage Section (RDSS).**

Response:

1. All new PIT & BE Video staff attended specialized TI training. This training has shown to be successful as the error rate for Notice of Proposed Assessment payments decreased by 37% in 2009.

**Finding 3 (F-3): The Bad Doc Desk missing payment workloads are not tracked, monitored, or resolved timely causing a potential loss of revenue to FTB.**

Response:

1. ICBS has created and is currently using the new tracking, monitoring, prioritizing spreadsheet. It is located on the 740 Y drive accessible by authorized staff.
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**Finding 4 (F-4): Form FTB 6352, Business Entity Memorandum of Remittance cannot be scanned and processed by the Image Processing and Cashiering System (IPACS): therefore, causing delays in payment processing.**

Response:

1. The BE Bankruptcy Unit in ARM, Executive Liaison Section and Business Entity Section are continuing to utilize Conversation \*\*\*\* in BETS. These three business areas represent the majority of areas that were using FTB 6352; therefore, we are no longer experiencing payment delays due to the Form FTB 6352.

**Finding 5 (F-5): An employee from the Business Entity (BE) Video Unit within the Receiving and Data Storage Section (RDSS) is performing collection activities that should be done by a different business area.**

Response:

1. The Express Mail process in the BE Video Unit has been re-engineered. The ARM collection area is only contacted for payment identification purposes when comments on either BETS or ARCS are insufficient for accurate payment application.

**Finding 6 (F-6): The Miscellaneous Unit within the Receiving and Data Storage and Data Section (RDSS) processes payment workloads that should be done by a different business area.**

Response:

1. Recommendation implemented in December 2008.

**Finding 7 (F-7): The lack of accounting for and monitoring of the Receiving and Data Storage (RDSS) badge clips compromises the security of the Receiving area.**

Response:

1. The Receiving area has gates and uniformed guards at each entrance point to monitor staff entering and exiting the area. Additionally, the Receiving area is monitored by over 30 cameras. These two additional security measures are beyond any security measures taken by other state revenue agencies.
2. Receiving managers, supervisors and security guards are actively monitoring staff at each gate and throughout the area to question any staff that does not have a business reason to be in the area.

**Finding 8 (F-8): Some of the procedures within the Processing Services Bureau (PSB) are outdated or are not documented.**

Response:

1. All Manuals have been revised, updated and available online.

**Finding 9 (F-9): Payments or returns, which require priority processing, are not being processed timely or efficiently, therefore; causing processing delays.**

Response:

1. Receiving worked with the Executive Liaison staff and other departmental customers to create a weekly priority process. This process was implemented in January 2010 and has shown to be more efficient, has reduced costs and it meets customer's needs.

**Finding 10 (F-10): e-file taxpayers who send FTB their payment with a paper copy of their e-filed return may receive a Statement of Tax Due (STD) notice in error.**

Response:

FMBB will address the recommendations as follows:

1. FMBB will continue to distribute the e-Pay Toolkits to practitioners.
2. FMBB has modified outreach materials to educate practitioners at e-services workshops and liaison meetings. We'll continue to distribute electronic messages using our mass-mail distribution list to communicate to practitioners.
3. Revisions were made to the FTB 3582.